

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Grand Traverse County Road Commission	County Grand Traverse
Audit Date December 31, 2004	Opinion Date June 16, 2005	Date Accountant Report Submitted to State: July 27, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

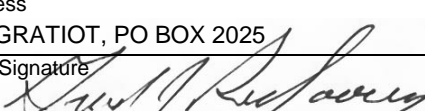
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025	City SAGINAW	State MI	Zip 48605
Accountant Signature 			



Grand Traverse County Road Commission
(A Component Unit of Grand Traverse County)

Traverse City, Michigan

Financial Statements

For the Year Ended December 31, 2004

GRAND TRAVERSE COUNTY
BOARD OF COUNTY ROAD COMMISSIONERS

James E. Maitland
Vice – Chairman

W. J. Hooper
Chairman

Roger L. Thompson
Commissioner

Mark Makowski
Manager

Michael K. Dillenbeck, P.E.
County Highway Engineer

Harold D. Kelly
Financial Director

GRAND TRAVERSE COUNTY ROAD COMMISSION
(A Component Unit of Grand Traverse County)

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REHMANN ROBSON

Certified Public Accountants

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An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

June 16, 2005

Members of the Board of County
Road Commissioners
County of Grand Traverse, Michigan
1881 LaFranier Road
Traverse City, Michigan 49684

We have audited the accompanying financial statements of the governmental activities and the major fund of the **Grand Traverse County Road Commission**, a component unit of Grand Traverse County, Michigan, as of and for the year ended December 31, 2004, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the **Grand Traverse County Road Commission's** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the **Grand Traverse County Road Commission** as of December 31, 2004, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2005 on our consideration of the **Grand Traverse County Road Commission's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Road Commission's basic financial statements. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the **Grand Traverse County Road Commission**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, stylized 'L' at the beginning.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Grand Traverse County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2004. The annual report consists of a series of financial statements. The Statements of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

Overview of the Financial Statements

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and an additional section that presents the operating fund broken down between primary, local and county road funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities-this is one way to measure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Note that Grand Traverse County government-wide financial statements are not herein presented because the Road Commission is a component unit of the county. The county presents their financial statements elsewhere and in a manner partially resembling private-sector business in its government-wide financial statements in compliance with GASB Statement No. 34.

Government-wide Statements

The *statement of net assets* presents information on all of the Road Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Road Commission is improving or deteriorating.

The *statement of activities* presents information showing how the Road Commission's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

Both of the component unit financial statements distinguish the function of the Road Commission which is principally supported by state shared revenues (operating grants). The governmental activities of the Road Commission include providing construction, repair, maintenance, and snow removal of roads within Grand Traverse County.

The government-wide financial statements include only the Road Commission itself (known as the *Primary government*). The Road Commission has no legally separate component units for which the Road Commission is financial accountable. In this report, financial information for the Road Commission is reported separately from the financial information presented for Grand Traverse County which reports the Road Commission as a component unit.

The government-wide financial statements can be found on pages 9 and 12 of this report.

Fund financial statements. A *fund* is grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Road Commission, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Road Commission is accounted for in a governmental fund (General Fund).

Governmental funds. *Governmental funds* (General Fund) are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, general fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the general fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the general fund with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the general fund balance sheet and the general fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the general fund and the government-wide statements.

The Road Commission maintains one governmental fund (the General Fund). Information is presented in the general fund balance sheet and in the general fund statement of revenues, expenditures, and changes in fund balances for the Road Commission. The general fund is a major fund for financial reporting purpose as defined by GASB Statement #34.

The Road Commission adopts an annual appropriated budget for its fund. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets.

The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual for the General Fund can be found on pages 13 through 14 of this report.

The Road Commission does not maintain proprietary nor fiduciary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the Road Commission's financial statements. The notes to the financial statements can be found on pages 15 through 26 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

Government-wide Financial Analysis

The Road Commission's Net assets increased approximately 9.7% or \$4,090,323, from \$41,983,700 to \$46,074,023 for the year ended December 31, 2004. The net assets and change in net assets are summarized below.

Grand Traverse County Road Commission Net Assets:

	<u>2004</u>	<u>2003</u>	<u>Change</u>	<u>%</u>
Current and other assets	\$3,704,601	\$2,794,166	\$ 910,435	32.5%
Capital assets	<u>47,606,619</u>	<u>43,860,589</u>	<u>3,746,030</u>	8.5
Total assets	<u>51,311,220</u>	<u>46,654,755</u>	<u>4,656,465</u>	10.0
Long-term liabilities outstanding	2,786,130	3,213,623	(427,493)	(13.3)
Other liabilities	<u>2,451,067</u>	<u>1,457,432</u>	<u>993,635</u>	68.2
Total liabilities	<u>5,237,197</u>	<u>4,671,055</u>	<u>566,142</u>	12.1
Net assets				
Invested in capital assets, net of related debt	45,086,519	40,867,703	4,218,816	10.3
Unrestricted	<u>987,504</u>	<u>1,115,997</u>	<u>(128,493)</u>	(11.5)
Total net assets, as restated	<u>\$46,074,023</u>	<u>\$41,983,700</u>	<u>\$4,090,323</u>	9.7%

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Grand Traverse County Road Commission, assets exceeded liabilities by \$46,074,023 at the close of the most recent fiscal year.

By far the largest portion of the Grand Traverse County Road Commission's net assets reflects its investment in capital assets (e.g., land, buildings, machinery and equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding.

Although the Grand Traverse County Road Commission's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

Governmental Activities

A summary of changes in net assets for the years ended December 31, 2004 and 2003 follows:

	<u>2004</u>	<u>2003</u>
Program revenue		
Charges for service	\$ 1,425,049	\$ 995,272
Operating grants and contributions		
State transportation funds	7,181,557	8,135,927
Capital grants and contributions		
Federal and state sources	1,724,363	469,517
Developments	2,315,284	2,502,991
General revenue		
Interest and rents	9,198	19,265
Other general revenue	-	70,697
Gain on equipment disposal	<u>376,851</u>	<u>6,880</u>
Total revenue	13,032,302	12,200,549
Program expenses	<u>8,941,979</u>	<u>9,130,892</u>
Increase in net assets	<u>\$ 4,090,323</u>	<u>\$ 3,069,657</u>

Governmental activities increased the Grand Traverse County Road Commission's net assets by \$4,090,323. The key elements of this increase are as follows:

- Operating grant and contribution revenue is expended by the Road Commission for construction and maintenance of roads. Under the full accrual method of accounting these amounts are capitalized as infrastructure additions, therefore, the revenue is not offset by expenditures, causing a significant increase in net assets.

General Fund Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the Board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue and expense budget for 2004 was \$8,245,100 and \$7,765,900 less than the original budget primarily due to the Hartman-Hammond Bridge project put on hold and the Three Mile Road project did not get into construction phase by the end of the fiscal year.

The actual revenue recognized during 2004 was less than the final amended budget by \$152,572 and the actual expense recognized during 2004 was less than the final amended budget by \$196,386.

Capital Assets and Debt Administration

As of December 31, 2004, the Grand Traverse County Road Commission had invested \$47,606,619 in capital assets. This amount represents a net increase (including additions and deductions) of \$3,746,030 for 8.5% as follows (in thousands):

	<u>2004</u>	<u>2003</u>	<u>Total Percentage Change 2003/2004</u>
Capital assets not being depreciated			
Land and improvements	\$ 20,861	\$ 17,954	16.2%
Capital assets being depreciated			
Buildings and improvements	4,118	4,118	0.0
Road equipment	7,667	7,126	7.6
Other equipment	2,522	2,522	0.0
Infrastructure and improvements	<u>37,119</u>	<u>34,563</u>	7.4
Subtotal	<u>51,426</u>	<u>48,329</u>	6.4
Total capital assets	72,287	66,283	9.1
Total accumulated depreciation	<u>(24,680)</u>	<u>(22,423)</u>	10.1
Total net capital assets	<u>\$ 47,607</u>	<u>\$ 43,860</u>	8.5

Major capital asset events during the current fiscal year included the following (in thousands):

	<u>2004</u>	<u>2003</u>
Buildings	\$ -	\$ -
Land / right-of-ways	1,595	35
Various resurfacing projects	4,466	6,582
Trucks/equipment	<u>604</u>	<u>545</u>
Total additions	<u>\$ 6,665</u>	<u>\$ 7,162</u>

Additional information on the Road Commission's capital assets can be found in note III.B. on page 21.

Long-term debt

The Road Commission currently has long-term debt in the amount of \$2.52 million which represents primarily bonded construction projects.

Other obligations include accrued vacation and sick pay leave. More detailed information about the Road Commission's long-term liabilities is presented in Note III C to the financial statements.

Economic Factors and Next Year's Budgets and Rates

We noted no factors that influenced our preparation of the 2005 Road Commission budget.

Requests for Information

This financial report is designed to provide a general overview of the Road Commission's finances for all those with an interest in the component unit's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Financial Director, Grand Traverse County Road Commission, 1881 LaFranier Rd., Traverse City, Michigan 49486.

BASIC FINANCIAL STATEMENTS

GRAND TRAVERSE COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS AND GENERAL FUND BALANCE SHEET
DECEMBER 31, 2004

	General Fund	Adjustments	Statement of Net Assets
ASSETS			
Cash and cash equivalents	\$ 521,241	\$ -	\$ 521,241
Accounts receivable			
State trunkline maintenance	203,063	-	203,063
Due on county road agreements	400,997	-	400,997
Motor vehicle highway funds	1,107,381	-	1,107,381
Due from other governments	87,128	-	87,128
Other	296,311	-	296,311
Inventories			
Equipment material and parts	152,680	-	152,680
Road materials	809,514	-	809,514
Prepaid items	126,286	-	126,286
Capital assets			
Land and improvements	-	20,861,389	20,861,389
Property and equipment - net of accumulated depreciation	-	6,614,136	6,614,136
Infrastructure - net of accumulated depreciation	-	20,131,094	20,131,094
Total assets	<u>\$ 3,704,601</u>	<u>47,606,619</u>	<u>51,311,220</u>
LIABILITIES AND FUND BALANCE / NET ASSETS			
Accounts payable	\$ 1,504,998	-	1,504,998
Accrued liabilities	132,178	-	132,178
Accrued interest payable	45,425	-	45,425
Due to state	345,323	-	345,323
Advances			
State trunkline equipment purchase	180,796	-	180,796
State trunkline maintenance	78,961	-	78,961
Deferred revenue	163,386	-	163,386
Long-term liabilities			
Due within one year	-	512,555	512,555
Due after one year	-	2,273,575	2,273,575
Total liabilities	<u>2,451,067</u>	<u>2,786,130</u>	<u>5,237,197</u>
Fund Balance/ net assets			
Fund balance			
Reserved for inventory	962,194	(962,194)	-
Unreserved, undesignated	291,340	(291,340)	-
Total fund balance	<u>1,253,534</u>	<u>(1,253,534)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 3,704,601</u>		
Net assets			
Investment in capital assets, net of related debt		45,086,519	45,086,519
Unrestricted		987,504	987,504
Total net assets		<u>\$ 46,074,023</u>	<u>\$ 46,074,023</u>

The accompanying notes are an integral part of these financial statements.

GRAND TRAVERSE COUNTY ROAD COMMISSION
Reconciliation of General Fund Balance Sheet
to Statement of Net Assets

DECEMBER 31, 2004

Fund balances - General Fund	\$ 1,253,534
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - land and improvements	1,073,347
Add - property and equipment	14,305,328
Add - infrastructure	56,907,515
Deduct - accumulated depreciation	(24,679,571)

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

Deduct - bonds payable	(2,450,000)
Deduct - note payable	(70,100)
Deduct - accrued compensated absences	(266,030)

Net assets of governmental activities	<u>\$ 46,074,023</u>
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The accompanying notes are an integral part of these financial statements.

GRAND TRAVERSE COUNTY ROAD COMMISSION

STATEMENT OF ACTIVITIES AND GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED DECEMBER 31, 2004

	General Fund	Adjustments	Statement of Activities
Expenditures/expenses			
Public works	\$ 8,366,102	\$ 575,877	\$ 8,941,979
Capital outlay	4,802,812	(4,802,812)	-
Total expenditures/expenses	13,168,914	(4,226,935)	8,941,979
Program revenue			
Charges for services	1,035,677	-	1,035,677
Operating grants and contributions			
State transportation funds	7,181,557	-	7,181,557
Local unit	389,372	-	389,372
Capital grants and contributions			
Federal and state sources	1,724,363	-	1,724,363
Developments	2,315,284	-	2,315,284
Total program revenues	12,646,253	-	12,646,253
Net program revenue			3,704,274
General revenue			
Interest and rents	9,198	-	9,198
Special items - gain on sale of assets	402,477	(25,626)	376,851
Total general revenue and special items	411,675	(25,626)	386,049
Total revenue	13,057,928		
Revenue and special items over (under) expenditures	(110,986)	110,986	-
Changes in net assets	-	4,090,323	4,090,323
Fund balance/net assets			
Beginning of the year, as restated	1,364,520	40,619,180	41,983,700
End of the year	\$ 1,253,534	\$ 44,820,489	\$ 46,074,023

The accompanying notes are an integral part of these financial statements.

GRAND TRAVERSE COUNTY ROAD COMMISSION
Reconciliation of the General Fund Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities

FOR THE YEAR ENDED DECEMBER 31, 2004

Revenues over expenditures - General Fund	\$ (110,986)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	624,425
Add - Infrastructure purchases	5,981,986
Deduct - depreciation expense	(2,834,755)

Disposal of capital assets before they are fully depreciated results in the recording of an expense in the statement of activities, but does not require the use of current financial resources and therefore is not reported as an expenditure in the General Fund. (25,626)

Repayment of the principal on long-term debt consumes current financial resources of governmental funds. This transaction, however, does not effect net assets. This amount is the effect of this difference in the treatment of long-term debt. 445,000

The change in accrued interest payable is reported as an expense in the statement of activities but does not require the use of current financial resources and therefore is not reported as an expenditure in the General Fund. 27,786

The change in the accrued compensated absences is reported as an expense in the statement of activities but does not require the use of current financial resources and therefore is not reported as an expenditure in the General Fund. (17,507)

Change in net assets of governmental activities	<u><u>\$ 4,090,323</u></u>
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The accompanying notes are an integral part of these financial statements.

GRAND TRAVERSE COUNTY ROAD COMMISSION

GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues				
Permits and licences	\$ 75,000	\$ 65,000	\$ 64,841	\$ (159)
Federal sources	1,009,000	795,000	636,637	(158,363)
State sources				
Michigan Transportation funds				
Engineering	10,000	10,000	10,000	-
Primary road	4,640,000	4,800,000	4,754,722	(45,278)
Local road	2,223,000	2,280,000	2,242,726	(37,274)
Snow removal	170,000	170,000	174,109	4,109
Economic development funds				
Rural primary	9,500,000	649,000	1,038,057	389,057
Forest Road	50,000	50,000	49,669	(331)
Contributions				
City and Village	112,000	20,000	22,000	2,000
Townships	300,000	250,000	367,372	117,372
Developments	2,500,000	2,500,000	1,856,003	(643,997)
Other	35,000	320,000	459,281	139,281
Charges for services				
State trunkline maintenance	650,000	800,000	875,459	75,459
State trunkline non-maintenance	50,000	67,000	66,548	(452)
Salvage sales	1,600	2,500	2,512	12
Other	20,000	20,000	19,435	(565)
Interest and rentals	10,000	7,000	9,198	2,198
Other revenue				
Special assessments	-	-	6,882	6,882
Land and building sales	-	400,000	398,676	(1,324)
Gain on equipment disposals	100,000	5,000	3,801	(1,199)
Total revenue	<u>21,455,600</u>	<u>13,210,500</u>	<u>13,057,928</u>	<u>(152,572)</u>

The accompanying notes are an integral part of these financial statements.

GRAND TRAVERSE COUNTY ROAD COMMISSION

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES

IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures				
Primary Road				
Construction	\$ 9,875,000	\$ 1,278,000	\$ 1,228,851	\$ 49,149
Heavy maintenance	1,226,000	1,547,000	1,741,235	(194,235)
Maintenance	2,033,000	2,164,000	2,653,323	(489,323)
Local Road				
Construction	2,500,000	2,500,000	1,856,033	643,967
Heavy maintenance	774,000	1,028,600	1,155,867	(127,267)
Maintenance	2,975,000	3,237,500	3,271,684	(34,184)
Total maintenance	19,383,000	11,755,100	11,906,993	(151,893)
Sundry expense	20,000	10,000	7,640	2,360
State trunkline maintenance	675,000	900,000	994,567	(94,567)
State trunkline non-maintenance	46,000	62,000	61,645	355
Equipment expense (net)	(489,000)	(456,000)	(781,830)	325,830
Administrative expense (net)	543,000	540,000	536,893	3,107
Capital outlay (net)	140,000	(260,000)	(176,612)	(83,388)
Debt principal payments	399,000	400,000	445,000	(45,000)
Interest expense	174,000	174,000	174,618	(618)
Total expenditures	<u>20,891,000</u>	<u>13,125,100</u>	<u>13,168,914</u>	<u>(43,814)</u>
Net change in fund balance	564,600	85,400	(110,986)	(196,386)
Fund balances, beginning of year	<u>1,364,520</u>	<u>1,364,520</u>	<u>1,364,520</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ 1,929,120</u></u>	<u><u>\$ 1,449,920</u></u>	<u><u>\$ 1,253,534</u></u>	<u><u>\$ (196,386)</u></u>

The accompanying notes are an integral part of these financial statements.

GRAND TRAVERSE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Grand Traverse County Road Commission (the "Commission") conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

A. Reporting Entity

The *Grand Traverse County Road Commission*, referred to as the Road Commission, is a discrete component unit of the County of Grand Traverse, Michigan. The Road Commission is used to control the expenditure of revenues from the State distribution of gas and weight taxes, reimbursements from the Department of State Highways for work done by the County on State trunklines, Federal Transportation funds, and contributions from other local units of government for work performed by the Road Commission.

The Road Commission is considered to be a component unit of the County because it is an entity for which the County is considered to be financially accountable.

The Road Commission, as a component unit of the County, is required by Public Act 51 of the State of Michigan, to have a separate audit performed of its operations. These audited financial statements have been prepared to meet this State requirement.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* are supported by taxes, charges for services and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

A combined financial statement is provided for the general fund and the statement of net assets and the general fund and the statement of activity. The general fund is considered to be a major fund for financial reporting purposes.

GRAND TRAVERSE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

C. Measurement Focus Basis of Accounting and Financial Statement Presentation

The government-wide financial statements (statement of net assets and the statement of activity) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund (general fund) financial statements (general fund balance sheet and general fund revenues, expenditures and changes in fund balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State and federal revenue, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government.

GRAND TRAVERSE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits

Cash and cash equivalents consist of cash on hand, deposits in demand and time deposit accounts, money market deposits, and certificates of deposits with original maturities of less than 90 days.

2. Inventory

Inventory, consisting of various operating parts, supplies and road material, is determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs, and operations as used.

3. Capital Assets

Capital assets, which include property, equipment and infrastructure assets (roads, bridges and similar items) are reported in the government-wide statements (statement of net assets and statement of changes in net assets). Capital assets are defined by the Road Commission as assets with an initial, individual cost of more than \$1,000 and an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

GASB Statement Number 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement Number 34. The Road Commission has capitalized the current year's infrastructure, as required by GASB Statement Number 34, and has reported the infrastructure assets on the statement of net assets.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund (general fund) column.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to the depreciation contra expense

GRAND TRAVERSE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Fund.

Depreciation is recorded over the estimated useful lives (ranging from five to fifty years) of the assets, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure as follows:

Buildings	30 to 50 years
Road equipment	5 to 8 years
Shop equipment	10 years
Office equipment	4 to 10 years
Engineering equipment	4 to 10 years
Infrastructure – bridges	12 to 50 years
Infrastructure – roads	5 to 30 years

4. State Trunkline Adjustments

Adjustments to available operating funds resulting from audits of State Trunkline maintenance expenditures are recorded at the time cash settlement is made. Management estimates each year for the anticipated back charges but the final amount of adjustments, if any, for the year ended December 31, 2004, has not been determined. Based on past experience, the Road Commission does not believe the adjustment will be a material amount from the estimated accrual.

5. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation, sick and personal pay benefits depending on the date of hire. All accrued vacation, sick and personal pay benefits are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The Road Commission allows employees to accumulate vacation and sick leave in varying amounts, depending on time of service and other factors.

GRAND TRAVERSE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Data

The Road Commission's procedures for establishing budgetary data are as follows:

Budgetary procedures are established pursuant to PA 521 of 1978, as amended, over 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. The Financial Director prepares a budget in accordance with the ACT which is adopted by the Board at a public hearing each December. All budgets lapse at year end.

The maximum accumulation of vacation hours for union employees is 176 hours and 240 hours for administrative personnel. An excess of the maximum is lost on the anniversary date of hire, except for a limited number which expires on a winter anniversary date. Employees accrued vacation time on a scale based on a longevity between 4 and 13 hours per month. Effective December 1, 1990, each regular union employee is provided with 56 hours of leave benefit. Administrative employees are provided with 8 hours per month of leave benefit. Each employee receives payment for leave not used as of December 1st of each year. Sick leave benefits prior to December 1, 1990, can be used as well.

The budget for the General Operating Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budget amounts shown in the financial statements consist of those amounts contained in the formal budget approved and amended by the Board.

The Road Commission adopts a budget for the general operating fund by means of an appropriations act, on a departmental activity basis in summary form. Periodic internal reporting is on a detail basis in accordance with the state-prescribed uniform chart of accounts consistent with the way the books are maintained. The budget is prepared on the modified accrued basis of accounting.

Variances at the legal level of control are as disclosed on the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

GRAND TRAVERSE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Deposits

At December 31, 2004, the amounts of the Road Commission's deposits were as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured	\$ 100,000	\$ 100,000
Uninsured – uncollateralized	<u>421,241</u>	<u>421,241</u>
	<u>\$ 521,241</u>	<u>\$ 521,241</u>

Investments

Statutes authorize the Road Commission to invest funds in the following:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through 12/31/97

GRAND TRAVERSE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

B. Capital Assets

Capital asset activity for the year ended December 31, 2004 was as follows:

	Balance January 1, <u>2004</u>	<u>Additions</u>	<u>Deductions</u>	Balance December 31, <u>2004</u>
Capital assets not being depreciated				
Land and improvements	\$1,077,973	\$ 20,000	\$ (24,626)	\$ 1,073,347
Land / right-of-way	13,587,368	1,575,436	-	15,112,804
Construction in progress	<u>3,339,088</u>	<u>1,395,698</u>	<u>(59,548)</u>	<u>4,675,238</u>
Total capital assets not being depreciated	<u>17,954,429</u>	<u>2,991,134</u>	<u>(84,174)</u>	<u>20,861,389</u>
Capital assets being depreciated				
Buildings	4,117,491	-	-	4,117,491
Road equipment	7,125,686	587,117	(46,283)	7,666,520
Shop equipment	228,721	996	-	229,717
Office equipment	356,271	4,295	(18,745)	341,821
Engineers equipment	249,572	12,017	-	261,589
Yard and storage	1,688,190	-	-	1,688,190
Infrastructure – bridges	765,296	-	-	765,296
Infrastructure – roads	<u>33,797,964</u>	<u>3,070,400</u>	<u>(514,187)</u>	<u>36,354,177</u>
Total capital assets being depreciated	<u>48,329,191</u>	<u>3,674,825</u>	<u>(579,215)</u>	<u>51,424,801</u>
Less accumulated depreciation				
Buildings	(187,599)	(82,350)	-	(269,949)
Road equipment	(5,823,265)	(610,749)	46,283	(6,387,731)
Shop equipment	(131,916)	(1,766)	-	(133,682)
Office equipment	(250,301)	(19,160)	18,745	(250,716)
Engineers equipment	(209,871)	(5,820)	-	(215,691)
Yard and storage	(352,231)	(81,192)	-	(433,423)
Infrastructure – bridges	(604,366)	(12,463)	-	(616,829)
Infrastructure – roads	<u>(14,863,482)</u>	<u>(2,021,255)</u>	<u>513,187</u>	<u>(16,371,550)</u>
Total accumulated depreciation	<u>(22,423,031)</u>	<u>(2,834,755)</u>	<u>578,215</u>	<u>(24,679,571)</u>
Net capital assets being depreciated	<u>25,906,160</u>	<u>840,070</u>	<u>(1,000)</u>	<u>26,745,230</u>
Total net capital assets	<u>\$43,860,589</u>	<u>\$3,831,204</u>	<u>\$ (85,174)</u>	<u>\$ 47,606,619</u>

GRAND TRAVERSE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

C. Long-Term Debt

Long-term liability activity for the year ended December 31, 2004 was as follows:

	<u>1/1/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/04</u>	<u>Due within one year</u>
Installments payable	\$ 95,100	\$ -	\$ 25,000	\$ 70,100	\$ 70,100
MTF bond payable	2,870,000	-	420,000	2,450,000	425,000
Compensated absences	<u>248,523</u>	<u>191,092</u>	<u>173,585</u>	<u>266,030</u>	<u>17,455</u>
Total	<u>\$ 3,213,623</u>	<u>\$ 191,092</u>	<u>\$ 618,585</u>	<u>\$ 2,786,130</u>	<u>\$ 512,555</u>

	<u>1/1/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/04</u>
<u>Installments payable</u>				
Installment payment to Grand Traverse County, \$25,000 annual installment, including interest 5.5%, due in 2005, unsecured.	\$ 95,100	\$ -	\$ 25,000	\$ 70,100
<u>Bonds payable</u>				
Michigan Transportation Fund Bonds Payable – Series 1993, principal due in variable annual installments, variable semi-annual interest payments at rate 5.3% to 3.75%, due August 2008.	830,000	-	150,000	680,000
Michigan Transportation Fund Bond Payable – Series 1995, principal due in variable annual installments, variable semi-annual interest payments at rate 4.55% to 5.0% due August 2005.	40,000	-	20,000	20,000
Michigan Transportation Fund Bonds Payable – Series 2001, Principal due in variable annual Installments, variable semi-annual Interest payments at rate 4.0% to 4.375%, due August 2011.	<u>2,000,000</u>	<u>-</u>	<u>250,000</u>	<u>1,750,000</u>
Total bonds payable	<u>\$ 2,870,000</u>	<u>\$ -</u>	<u>\$ 420,000</u>	<u>\$ 2,450,000</u>

GRAND TRAVERSE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

	MTF 1993 Bonds		MTF 1995 Bonds		MTF 2001 Bonds		Total	
Bonds Payable:	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 155,000	\$ 30,600	\$ 20,000	\$ 1,000	\$ 250,000	\$ 73,563	\$ 425,000	\$ 105,163
2006	165,000	23,625	-	-	250,000	63,562	415,000	87,187
2007	175,000	16,200	-	-	250,000	53,562	425,000	69,762
2008	185,000	8,325	-	-	250,000	42,938	435,000	51,263
2009	-	-	-	-	250,000	32,312	250,000	32,312
2010 – 2011	-	-	-	-	500,000	32,626	500,000	32,626
Total bonds payable	<u>\$ 680,000</u>	<u>\$ 78,750</u>	<u>\$ 20,000</u>	<u>\$ 1,000</u>	<u>\$1,750,000</u>	<u>\$298,563</u>	<u>\$2,450,000</u>	<u>\$ 378,313</u>

The installment payable to Grand Traverse County is due in full in the subsequent fiscal year with interest expense of \$3,856.

IV. OTHER INFORMATION

A. Defined Benefit Pension Plan

Pension Plan

The Road Commission's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Road Commission participates in the Municipal Employees Retirement System (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (888) 478-1919.

Funding Policy

The Road Commission is required to contribute at an actuarially determined rate; the current rate is 12.89% of annual covered payroll for general employees and 27.68% for administrative employees. The contribution requirements of the Road Commission are established by Act No. 427 of the Public Acts of 1984, as amended, and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Road Commission.

GRAND TRAVERSE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Annual Pension Cost

For the year ended December 31, 2004, the Road Commission's annual pension cost of \$120,574 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2002, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Road Commission's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2003 the date of the latest actuarial valuation was 26 years.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/2002	\$80,846	100%	-
12/31/2003	65,272	100	-
12/31/2004	120,574	100	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/2001	\$7,888,387	\$8,039,796	\$151,409	98%	\$777,689	19.4%
12/31/2002	7,587,719	8,560,307	972,588	89	796,093	81.9
12/31/2003	7,486,945	8,568,423	1,081,478	87.5	778,137	71.9

Defined Contribution Pension Plan

The Grand Traverse County Road Commission provides pension benefits to all of its full-time employees through a defined contribution plan. It is administered by ICMA. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by agreement, the County Road Commission contributes

GRAND TRAVERSE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

12% of administrative and 10% of union personnel gross earnings, respectively. Contributions for each employee (plus interest allocated to the employee's account) are fully vested. Plan provisions and contribution requirements are established and may be amended by the Board of County Road Commissioners.

During the fiscal year the Road Commission contributed \$181,264 and employees contributed \$42,020.

B. Post Employment Benefits

In addition to the pension benefits, the County Road Commission provides post-employment health care insurance benefits to all retired employees and/or their spouse. The benefits are provided in accordance with articles of the union agreement, which includes the provision that upon retirement, the commission contributes the full premium per month for health coverage per retiree. Total employees receiving these benefits are 16 early retirees, 16 retirees and 8 surviving spouses. Total cost for the year was \$161,144.

C. Self-Insurance Pool

The Commission is a member of the Michigan County Road Commission Self-Insurance Pool (Pool). The insurance coverage includes, but is not limited to, general liability, auto, property insurance, stop loss protection, errors and omissions, truck line liability and an umbrella policy. The amount the Commission pays annually is determined by the Administrator of the Pool and is based on miles of roads, population and prior claim history of the Commission. In addition to premiums paid, the Road Commission is responsible for the first \$1,000 of legal expense incurred per occasion. All other risk is transferred to the Pool.

D. Contingencies

The Road Commission has been named as a defendant in various litigation involving lawsuits pending and notices of intent to file suit.

Management and legal counsel of the Road Commission expect no material losses in excess of insurances should an unfavorable outcome prevail. No provision for any loss has been made in the accompanying financial statements.

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such grants could lead to reimbursement to the grantor agencies. However, Road Commission management does not believe such disallowances, if any, will be material to the financial position of the Road Commission.

GRAND TRAVERSE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

E. Single Audit

It is required by the Michigan Department of Transportation (MDOT) that Road Commissions report total federal awards for Highway Research, Planning and Construction pertaining to their County.

During 2004, the Road Commission of Grand Traverse County expended federal awards in the amount of \$636,637. \$333,593 of this amount represents Department of Transportation Federal Highway grant proceeds expended on public road improvement projects under Federal Urban and Rural Programs, whereby work was administered by the Michigan Department of Transportation. Due to the work and funding of these projects being performed at the State level, these expenditures will be included in the single audit procedures of the State. Federal expenditures in the amount of \$303,044 was administered by the Road Commission, the remaining amount was administered by Michigan Department of Transportation, therefore a single audit was not required.

F. Leases

The Commission has executed five noncancelable operating leases with Caterpillar Financial Services Corporation, payable in monthly installment amounts. Leases mature in 2008. Future lease commitments amount to \$348,627.

G. Related Party Transaction

During 2004, the Road Commission entered into an agreement with Great Northern Benefits to provide health insurance benefits. A member of the board is a principal at this company. During the year, total expenditures incurred amounted to \$608,432. The board member has abstained in all votes related to the agreement between the Road Commission and Great Northern Benefits.

H. Prior Period Adjustments

Beginning net assets of the Road Commission were adjusted by a decrease of \$28,717 due to corrections of errors in the Road Commission's buildings and yard and storage depreciation schedules in the prior year.

* * * * *

OPERATING FUND SCHEDULES

GRAND TRAVERSE COUNTY ROAD COMMISSION

GENERAL OPERATING FUND SCHEDULE OF REVENUES BY COMPONENT

FOR THE YEAR ENDED DECEMBER 31, 2004

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
Revenues				
Permits and licenses	\$ -	\$ -	\$ 64,841	\$ 64,841
Federal sources				
Surface transportation program	633,157	3,480	-	636,637
State sources				
Michigan transportation funds				
Engineering	6,800	3,200	-	10,000
Urban	428,518	186,474	-	614,992
Allocation	4,326,204	2,056,252	-	6,382,456
Snow removal	-	174,109	-	174,109
Economic development funds				
Rural primary (D funds)	1,038,057	-	-	1,038,057
Forest road (E funds)	-	49,669	-	49,669
Contributions from local units				
City and Village	22,000	-	-	22,000
Townships	-	367,372	-	367,372
Other	413,451	1,901,833	-	2,315,284
Charges for services				
State trunkline maintenance	-	-	875,459	875,459
State trunkline non-maintenance	-	-	66,548	66,548
Salvage sales	-	-	2,512	2,512
Other	-	-	19,435	19,435
Interest and rentals	3,065	1,305	4,828	9,198
Other				
Special assessments	-	6,882	-	6,882
Land and building sales	-	-	398,676	398,676
Gain on equipment disposals			3,801	3,801
Total revenues	\$ 6,871,252	\$ 4,750,576	\$ 1,436,100	\$ 13,057,928

GRAND TRAVERSE COUNTY ROAD COMMISSION

GENERAL OPERATING FUND SCHEDULE OF EXPENDITURES BY COMPONENT

FOR THE YEAR ENDED DECEMBER 31, 2004

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
Expenditures				
Construction				
Roads	\$ 1,228,851	\$ 1,856,033	\$ -	\$ 3,084,884
Heavy maintenance				
Roads	1,741,235	1,155,867	-	2,897,102
Maintenance				
Roads	2,653,323	3,271,684	-	5,925,007
State trunkline maintenance	-	-	994,567	994,567
State trunkline non-maintenance	-	-	61,645	61,645
Equipment expense (net)	(238,615)	(382,393)	(160,822)	(781,830)
Administrative expense (net)	253,563	283,330	-	536,893
Capital outlay (net)	-	-	(176,612)	(176,612)
Other	-	-	7,640	7,640
Debt principal payments	-	-	445,000	445,000
Interest expense	-	-	174,618	174,618
Total expenditures	\$ 5,638,357	\$ 6,184,521	\$ 1,346,036	\$ 13,168,914

GRAND TRAVERSE COUNTY ROAD COMMISSION

GENERAL OPERATING FUND

SCHEDULE OF CHANGES IN FUND BALANCE BY COMPONENT

FOR THE YEAR ENDED DECEMBER 31, 2004

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
Total revenues	\$ 6,871,252	\$ 4,750,576	\$ 1,436,100	\$ 13,057,928
Total expenditures	<u>5,638,357</u>	<u>6,184,521</u>	<u>1,346,036</u>	<u>13,168,914</u>
Revenues over (under) expenditures	1,232,895	(1,433,945)	90,064	(110,986)
Other financing sources (uses)				
Intrafund transfers	<u>(1,428,450)</u>	<u>1,428,450</u>	<u>-</u>	<u>-</u>
Revenues and other sources over (under) expenditures and other (uses)	(195,555)	(5,495)	90,064	(110,986)
Fund balance, beginning of year	<u>728,465</u>	<u>302,101</u>	<u>333,954</u>	<u>1,364,520</u>
Fund balance, end of year	<u>\$ 532,910</u>	<u>\$ 296,606</u>	<u>\$ 424,018</u>	<u>\$ 1,253,534</u>

INTERNAL CONTROL AND COMPLIANCE



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

June 16, 2005

Members of the Board of County
Road Commissioners
County of Grand Traverse, Michigan
Traverse City, Michigan

We have audited the basic financial statements of the governmental activities and the major fund of the Grand Traverse County Road Commission, a component unit of Grand Traverse County, as of and for the year ended December 31, 2004, and have issued our report thereon dated June 16, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Grand Traverse County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Grand Traverse County Road Commission's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant-agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of County Road Commissioners, and the County's Board of Commissioners, and is not intended to be and should not be used by anyone other than these specified parties.

Rehmann Robson



REHMANN ROBSON

Certified Public Accountants

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June 16, 2005

Board of County Road Commissioners
Traverse City, Michigan

In planning and performing our audit of the financial statements of the ***Grand Traverse County Road Commission*** (the "Road Commission") as of and for the year ended December 31, 2004, we considered the Road Commission's internal control structure to determine our auditing procedures for the purpose of forming opinions on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of some matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated June 16, 2005 on the financial statements of the ***Grand Traverse County Road Commission***.

We will review the status of these comments and suggestions during our next audit engagement. We have already discussed these comments and suggestions with various Road Commission personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Grand Traverse County Road Commission

Comments and Recommendations

December 31, 2004

1) Back-up of software data

Certain financial data is being backed up routinely at the Road Commission. These back-ups, however, are generally being stored on site. If a disaster such as a fire were to occur, even though back-ups have been performed, they may be lost. Further, the back-up data would be piecemeal at best.

We recommend that one Road Commission employee be responsible to take the back-up tape or other device to be stored off-site. This would result in a full back up of data stored outside of the Road Commission and would be available if a disaster were to occur.

2) Undeposited checks

Checks are kept in an unlocked drawer until time of deposit. This allows the possibility of unauthorized access, which could lead to misappropriation of the Road Commission's asset.

We recommend the Road Commission places these undeposited checks in a locked cabinet with limited access by appropriate individuals. This will prevent funds from being misappropriated.